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ALGONQUIN BUILDING CREDITS LIMITED

APR 25 1968

FOR THE FISCAL YEAR ENDING DECEMBER 31st, 1962

SIXTH ANNUAL REPORT

Head Office, 10 EGLINTON AVENUE EAST, TORONTO, ONTARIO

ALGONQUIN BUILDING CREDITS LIMITED

HEAD OFFICE

10 Eglinton Avenue East
Toronto, Ontario

BRANCHES

Western Canada
608 7th Street S.W.
Calgary, Alberta

Southern Ontario
10 Eglinton Ave. East
Toronto, Ontario

Northern Ontario
31 Cedar Street
Sudbury, Ontario

AUTHORIZED CAPITAL

300,000 common shares without nominal or par value
25,000 6½% cumulative redeemable preference shares
of \$20.00 par value each.

ISSUED CAPITAL

99,305 common shares
10,000 6½% cumulative redeemable preference shares

OFFICERS

W. R. THOMAS	- - - - -	PRESIDENT
D. R. MUSGRAVE	- - - - -	VICE-PRESIDENT
W. T. CLAYTON, C.A.	- - - - -	SECRETARY-TREASURER

DIRECTORS

R. D. GRANT	- - - - -	TORONTO, ONTARIO
F. D. LACE	- - - - -	TORONTO, ONTARIO
R. W. L. LAIDLAW	- - - - -	TORONTO, ONTARIO
C. C. LAKING	- - - - -	TORONTO, ONTARIO
J. G. LIND	- - - - -	DORCHESTER, ONTARIO
D. E. McQUIGGE	- - - - -	TORONTO, ONTARIO
W. B. MACDONALD	- - - - -	TORONTO, ONTARIO
D. R. MUSGRAVE	- - - - -	TORONTO, ONTARIO
G. C. TATE	- - - - -	SUDBURY, ONTARIO
W. R. THOMAS	- - - - -	TORONTO, ONTARIO

AUDITORS

CLARKSON, GORDON & CO.
CHARTERED ACCOUNTANTS
TORONTO, ONTARIO

TRANSFER AGENT AND REGISTRAR

THE ROYAL TRUST COMPANY
TORONTO, ONTARIO

TRUSTEE

7% Sinking Fund Debentures Series A
CANADA PERMANENT TORONTO GENERAL TRUST COMPANY
TORONTO, ONTARIO

TRUSTEE

Collateral Trust Notes
THE ROYAL TRUST COMPANY
TORONTO, ONTARIO

REPORT OF THE DIRECTORS

TO: THE SHAREHOLDERS:

Enclosed herewith please find NOTICE calling an Annual Meeting of Shareholders of your Company, together with the Sixth Annual Report consisting of this report from your Directors, the consolidated financial statements of the Company for the year ended December 31st, 1962 and the Auditors' Report thereon.

As you will see from the accompanying financial statements, Instalment Notes Receivable show a net increase of \$1,616,965 during the year and totalled \$6,909,333 at the year end. During the year \$4,944,500 in new Instalment Notes were handled for dealers which is an increase in new business for the year of \$1,094,500 over the previous year. Instalment Notes receivable and mortgages outstanding now amount to \$7,688,116.

Net profit for the year's operations amounted to \$108,786 compared to \$56,351 in the previous year and, after payment of \$13,000 in Preference Share dividends, represents 96c. earned for each Common Share issued. During the year the number of Common Shares outstanding increased from 91,630 to 99,305. This increase of 7,675 Common Shares resulted from 7,475 shares being subscribed for by holders of Warrants which were attached to 7% Sinking Fund Debentures Series "A" and 200 Common Shares being purchased under the terms of the option granted to the President.

Long term liabilities of the Company were reduced during the year by payment of the Sinking Fund instalment due on 7% Sinking Fund Debentures Series "A" on February 15, 1962. Short term liabilities increased due to the enlarged use of bank borrowings, an increase in Short Term Collateral Trust Notes Series "B" amounting to \$300,000 and the issue of a new series, 6% Series "U" Notes, which mature on November 15, 1963. During the year Short Term Collateral Trust Notes issued by the Company gained further acceptance in the market and were helpful in reducing the general cost of borrowed funds.

It is appropriate to mention at this point that Dividend Number 10 was paid on the Company's Common Shares on December 21, 1962 thereby completing a full five year pattern of uninterrupted dividends. As soon as practicable your Directors intend to institute a pattern of quarterly dividend payment on the Company's Common Shares.

In August, 1962 a new Branch Office was opened at Sudbury, Ontario to further develop the valuable business which has been handled in Northern Ontario since the inception of the Company. While the Branch was particularly developed to consolidate service facilities for Northern Ontario Dealers, significant benefits are being achieved in customer service and account administration. The Branch opened in Calgary in 1961 continues to grow and prosper, with an expanding dealer service in the Province of Alberta. The Company has been registered in the Provinces of Manitoba and Saskatchewan.

It is gratifying to report that the I.B.M. punched card accounting system, referred to in the 1961 Report of the Directors, functioned smoothly throughout the year. Benefits from this system continue to increase as additional programs are integrated with the system. No actual accounting or recording is done in the branch offices, with the effect of making branch staff requirements comparatively small and giving indications of economy of future operation which can be achieved as the Company grows. Experience with this equipment in 1962 indicates that the introductory expenses were well justified.

Alquin Securities Limited has been active throughout the year in handling mortgages for lumber and building supply dealers in both Ontario and Manitoba. The portfolio of mortgages is kept at a relatively stable amount by selling mortgages to other institutions. Significant profits have been realized from these operations in addition to the valuable relationship which this dealer service creates.

In the past reference has been made to the conservative fashion by which your Company has taken the carrying charges contained in the outstanding Notes Receivable into income, month by month. In the more active seasons of the Home Improvement year income from new Notes Receivable has not kept up with the initial expense incurred in developing, acquiring and administering new accounts. After considerable discussion and consultation your Directors have therefore approved a change in accounting policy, retroactive to January 1, 1962. By establishing a pattern of income extraction which tends to compensate for the initial acquisition expense of new notes receivable, the affairs of the Company are more nearly comparable to other companies in the financing field. You will observe in the Auditors' note to the accompanying financial statement that the effect of this change, together with a modification in the method of making provision for doubtful accounts, in the year 1962 has been to increase the net profit by approximately \$25,000.00. It is also significant to note that the Unearned Service Charge account has not been reduced materially since it stands at 16.4% of outstanding Notes Receivable after the change in policy compared to 16.8% at the end of the 1961 year. Your Directors feel that this is a highly-significant departure and that it will contribute substantially to the future growth of your Company without making its fundamental policies any less conservative than heretofore.

It is a pleasure to report that Mr. R. W. L. Laidlaw was elected a Director of the Company in May, 1962. Mr. W. T. Clayton, C.A., was appointed Secretary and Treasurer of the Company and its subsidiary in April, 1962.

To be able to report on a very highly successful year in all aspects of your Company's affairs provides all concerned with the operation and direction of the Company with a great deal of pleasure. Our success in our field depends to a very large degree upon the service which is rendered to dealers and customers alike, since service is our prime function. The quality of service depends upon a keen and conscientious staff. Much of the credit, therefore, for a highly successful 1962 year goes to your excellent staff. On your behalf we would like to extend to them warm appreciation for their efforts.

On Behalf of the Board,

W. R. THOMAS,

President.

March 7, 1963

ALGONQUIN BUILDING CREDITS LIMITED

(Incorporated under the laws of Ontario)
and its wholly-owned subsidiary Alquin Securities Limited

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1962

(with comparative figures at December 31, 1961)

ASSETS			
CURRENT ASSETS:		1962	1961
Instalment notes receivable (including amounts not due within one year of approximately \$3,962,000 in 1962 and \$2,900,000 in 1961) after allowance for doubtful accounts of \$52,964 in 1962 and \$37,639 in 1961		\$6,856,369	\$5,254,729
Sundry accounts receivable and prepaid expenses		26,083	14,607
Total current assets		<u>\$6,882,452</u>	<u>\$5,269,336</u>
MORTGAGES RECEIVABLE:			
Mortgages receivable over terms up to ten years (including instalments due within one year of \$187,000 in 1962 and \$178,000 in 1961)		\$ 778,783	\$ 740,108
FIXED ASSETS:			
Office equipment and automobiles at cost and unamortized leasehold improvements		\$ 45,035	\$ 36,579
Less accumulated depreciation		20,754	14,455
Total fixed assets		<u>\$ 24,281</u>	<u>\$ 22,124</u>
DEFERRED CHARGES:			
Unamortized note and debenture expense and discount		\$ 128,858	\$ 145,596
		<u>\$7,814,374</u>	<u>\$6,177,164</u>

On behalf of the Board: W. R. THOMAS, *Director*
D. R. MUSGRAVE, *Director*

The accompanying notes to the above consolidated balance sheet are an integral part thereof.

ALGONQUIN BUILDING CREDITS LIMITED(Incorporated under the laws of Ontario)
and its wholly-owned subsidiary Alquin Securities Limited**CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1962**

(with comparative figures at December 31, 1961)

LIABILITIES

	1962	1961
CURRENT LIABILITIES:		
Bank overdraft — secured	\$ 34,160	\$ 204,674
Bank loan — secured	2,250,000	1,350,000
Accounts payable and accrued charges	74,704	97,296
Income taxes payable	82,742	4,666
Short term collateral trust notes, Series B	680,000	380,000
6% Series U notes maturing November 15, 1963	150,000	
Total current liabilities	\$3,271,606	\$2,036,636
DEFERRED INCOME:		
Unearned service charges, instalment notes receivable	\$1,131,508	\$ 891,749
Unearned interest on mortgages	210,313	173,141
Total deferred income	\$1,341,821	\$1,064,890
ACCUMULATED TAX REDUCTIONS APPLICABLE TO FUTURE YEARS	\$ 39,600	
LONG TERM LIABILITIES:		
7% Collateral trust notes, Series A, due September 1, 1964 (note 2)	\$ 250,000	\$ 250,000
6½% Sinking fund collateral trust notes, Series C, maturing May 15, 1976	1,500,000	1,500,000
7% Sinking fund debentures, Series A, maturing March 15, 1970 (including sinking fund instalment of \$30,000 due February 15, 1963) (note 2)	570,000	600,000
Total long term liabilities	\$2,320,000	\$2,350,000
SHAREHOLDERS' EQUITY:		
Capital —		
6½% cumulative, redeemable preference shares of \$20 par value each (notes 1 and 2):		
Authorized — 25,000 shares		
Issued — 10,000 shares	\$ 200,000	\$ 200,000
Common shares of no par value (notes 2, 3 and 4):		
Authorized — 300,000 shares		
Issued — 99,305 shares (91,630 at December 31, 1961)	537,537	480,375
	\$ 737,537	\$ 680,375
Less commissions paid on issue of shares	23,985	23,985
	\$ 713,552	\$ 656,390
Earned surplus	127,795	69,248
Total shareholders' equity	\$ 841,347	\$ 725,638
	\$7,814,374	\$6,177,164

AUDITORS' REPORTTo the Shareholders of
Algonquin Building Credits Limited:

We have examined the consolidated balance sheet of Algonquin Building Credits Limited and its wholly-owned subsidiary as at December 31, 1962 and the statements of consolidated profit and loss and earned surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and statements of consolidated profit and loss and earned surplus present fairly the financial position of the companies as at December 31, 1962 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the change in the basis of computing revenue from service charges and the modification in the method of providing for doubtful accounts as set out in note 5 to the financial statements.

Toronto, Canada,
March 5, 1963.CLARKSON, GORDON & CO.,
Chartered Accountants

ALGONQUIN BUILDING CREDITS LIMITED
and its wholly-owned subsidiary Alquin Securities Limited

**STATEMENTS OF CONSOLIDATED PROFIT AND LOSS
AND CONSOLIDATED EARNED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1962**
(with comparative figures for the year 1961)

CONSOLIDATED PROFIT AND LOSS

	1962	1961
REVENUE:		
Earned service charges and other income	\$ 923,446	\$ 568,328
EXPENSES:		
General and administrative expenses	\$ 315,907	\$ 239,241
Costs of borrowing money	330,005	201,411
Provision for doubtful accounts	60,811	19,603
Depreciation	7,287	6,447
Directors' fees	2,150	1,975
Total expenses	\$ 716,160	\$ 468,677
Profit before income taxes	\$ 207,286	\$ 99,651
Income taxes	98,500	43,300
Net profit for the year	\$ 108,786	\$ 56,351

CONSOLIDATED EARNED SURPLUS

	1962	1961
Balance at beginning of the year	\$ 69,248	\$ 57,320
Add net profit for the year	108,786	56,351
	\$ 178,034	\$ 113,671
Deduct dividends paid:		
Preference shares	\$ 13,000	\$ 13,000
Common shares	37,239	31,423
	\$ 50,239	\$ 44,423
Balance at end of the year	\$ 127,795	\$ 69,248

ALGONQUIN BUILDING CREDITS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1962

- The preference shares are redeemable at a premium of 2½%.
- The supplementary trust indenture securing the collateral trust notes series C limits the aggregate amount of dividends (other than stock dividends) and the redemption of capital stock subsequent to January 1, 1961 to the amount of the consolidated net earnings arising from that date. Under certain conditions the series C notes are redeemable at a premium of 6.5375% to May 15, 1963 and at reducing amounts thereafter.
The trust indenture securing the sinking fund debentures contains dividend and share redemption restrictions based on the relationship of the shareholders' equity to unsecured funded indebtedness. These debentures are redeemable at a premium of 5.6% to March 15, 1963 and at reducing amounts thereafter.
The supplementary letters patent creating the preference shares contain restrictions concerning the issue of additional preference shares.
- At December 31, 1962 the following warrants and options to subscribe for or purchase common shares were outstanding:
 - Share purchase warrants (issued with the series A debentures) entitling the holders to purchase an aggregate of 6,175 common shares, at the price of \$10.00 per share on or before March 15, 1963 and at the price of \$12.00 per share thereafter to March 15, 1964.
 - An option to Mr. W. R. Thomas, president and general manager of the company, to purchase all or any part of 4,800 common shares at \$5.50 per share, exercisable on or before March 15, 1964.
- During 1962, 7,475 common shares were issued for \$56,062.50 cash on the exercise of share purchase warrants issued with the series A debentures and 200 shares were issued for \$1,100 cash under the terms of the option granted to the president.
- On January 1, 1962 the company changed its basis of taking up revenue from service charges; under the revised basis an amount equivalent to the cost of acquisition is taken into revenue at the time an instalment note is acquired and the balance of the service charge is allocated over the term of the note on a sum-of-the-digits method. On the same date the company modified its method of providing for doubtful accounts. The net effect of these changes was to increase net profit for the 1962 year by approximately \$25,000.

RESULTS IN BRIEF

	1962	1961
1. Total Assets of the Company	\$7,814,374.	\$6,177,164.
2. Equity as a percent of Total Assets	10.8%	11.7%
3. Instalment Notes and Mortgages receivable	\$7,688,116.	\$6,032,476.
4. Deferred Income:		
a) <i>Instalment accounts</i>	\$1,131,508.	\$ 891,749.
b) <i>Mortgages receivable</i>	\$ 210,313.	\$ 173,141.
c) <i>Percentage of Deferred Income (a)</i> <i>to Instalment Notes Receivable</i>	16.4%	16.8%
5. Earnings and Dividends:		
a) <i>Gross income</i>	\$ 923,446.	\$ 568,328.
b) <i>Net profit after taxes</i>	\$ 108,786.	\$ 56,351.
c) <i>Earnings per share (after prefer-</i> <i>ence share dividends)</i>96c	.47c
d) <i>Dividends per Common Share</i>37½c	.35c
e) <i>Earnings per equity dollar</i>	12.9%	7.7%
f) <i>Times Preference Dividend Earned</i>	8.36	4.33

